



Handloom news

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Dear Readers,

Welcome to the fourth issue of Handloom News. As this issue is getting prepared the world is preparing to go into negotiations on WTO issues at Cancun in Mexico, in September. However, by the time this issue reaches you, one might be already reading the results of this Ministerial Meeting. In this context, we thought it is important to devote this issue to the implications of WTO-related textile and clothing trade agreements on the handloom sector. While there is no such assessment available, nor done by either the governments or the research institutions, CHIP is making this small attempt to bring before you some of the general issues being discussed.

While there are supposed to be some sops for traditional industries such as handlooms in the WTO agreement, governments in India have failed to educate the handloom weavers on what these provisions are, and how the application of the same would benefit or affect them negatively. In any case, it is obvious that Interests of the handloom sector have not been integrated into the national trade negotiating positions. In fact, none is aware of the government's position on handloom sector. Everybody agrees that it is not easy to analyse market access barriers, influence international standards or track the impact of multilateral negotiations on exporters in handlooms. This becomes much more difficult when the governments want to intentionally keep out the handloom sector, as part of restructuring the Indian textile sector. Interests of crores of handloom weavers are being ignored in this country. Post-2004, it is expected that sectors have to strengthen themselves to face the challenges posed by the free textile trade regime.

Firstly, handloom sector is a mature industry; some may consider it a sunset industry. Change in mature industries tends not only to be evolutionary rather than revolutionary in nature, but also tends to be resisted. Rapid adjustment does not easily occur. Historically, this industry is located in clusters, which is now considered appropriate in 2005 regime. The other sub-textile sectors in comparison are more recent although not necessarily less resistant to change. However, the governments in India have been focusing their efforts on powerloom sector, rather than build the export-base by encouraging the handloom sector with appropriate measures. Handloom sector has been a consistent source of textile exports from India, and has been the only sector which has successfully prevented cheaper textile imports coming into India. Handloom sector has been catering fully to the domestic niche and cheap markets, as well as value-added exports in the international markets. It is time that the government of India recognized the strengths of its own textile sector, and work upon further strengthening of this sector by undertaking appropriate policy measures. Indian textile sector is likely to be balanced by the bulwark of handloom production, and would be able to remain competitive in the international markets only through the growth and vibrancy of handloom production.

In this issue we bring to you the assessment of the international situation in textile and clothing sector. Most of the assessment presented here is based on the writings of Mr. Mathias Knappe, Senior Development Officer, International Trade Centre, Geneva, who was kind enough to extend his cooperation to the work of CHIP. We also bring you a brief report on The Conference on the Future of Textiles and Clothing after 2005, Brussels, 5-6 May 2003, organized by the European Commission for Trade, which invited altogether 800 persons from over 70 nations (trade policy makers, industrialists, exporters, retailers, importers, academics) to discuss the future of textiles and clothing trade once quotas will have been removed in 2005. This issue also includes a small report on the Workshop organized by CHIP, in association with CUTS, Calcutta and Oxfam GB (India), on "Globalisation and Economic Liberalisation and its impact on handloom sector" in Hyderabad, 27-29 July, 2003.

In any case, the global bureaucracy of WTO is likely to be much more complex and difficult to understand. We probably might need some 'middlemen' to get some honest benefits from the huge, complex global trade regime. CHIP would continue to monitor the changes in the Indian textile sector in the context of the international changes. We request your contribution and support in this regard.

D. Narasimha Reddy

Agreement on Textile and Clothing (ATC)

Global textile sector is very important for many countries, particularly for developing and newly industrialised countries. For this reason, changes in such a sector will ensure a prominent place on any future political agenda. A sea change in the manufacture and trade in textiles will occur on 1st January 2005. On 31st December, 2004, the Agreement on Textiles and Clothing will end. As a result, trade in these sectors will undergo a fundamental change.

By 2005, the sector will have been fully integrated into the WTO General Agreement on Tariffs and Trade (GATT). With it the quota system for international trade in textiles and clothing would come to an end, and all quotas will have disappeared. Only tariffs would remain as a market entry mechanism. Even these tariffs would be discussed to reduce tariff highs, peaks and escalations under the Doha Development Agenda.

When the Agreement on Textiles and Clothing was signed in the 1990s, it was considered an opportunity for the textile sector in developed economies to continue to restructure for another

ten years, while at the same time providing developing members of the World Trade Organisation increasingly significant trading opportunities culminating in a free trade regime by 2005. A new round of multilateral trade negotiations launched in December 1999 failed due to the lack of prior agreement and broad consensus between the 135 countries participating, the unpopular broad agenda and the continuing protection of agriculture of the European Community, the narrow United States agenda together with its intransigence over textiles, trade defence instruments and labour standards and the hard line taken by the Cairns group.

The Agreement on Textiles and Clothing was one of the multilateral trade agreements that constituted an integral part of the Uruguay Round of Multilateral Trade Negotiations signed in Marrakech on 15th April 1994, establishing the World Trade Organisation. It had certain features that distinguished it from other multilateral trade agreements as well as the Multifibre Arrangement. Firstly, the Agreement on Textiles and Clothing became a component of the multilateral trading system enshrined in the World Trade Organisation by being binding on all members. By contrast,

under the General Agreement on Tariffs and Trade members could, when joining the organisation, be excluded from any particular disposition that they did not adhere to. Within ten years all members of the World Trade Organisation should follow the same principles and rules and the special dispensations for the transition period will cease to exist on 1st January 2005.

The most important feature of the Agreement on Textiles and Clothing is the programme of implementation. By 1st January 2005 and within three stages, existing quotas will have been removed by progressively increasing permitted levels, from 1st January 1995, from 1st January 1988 and from 1st January 2002 to 31st December 2004.

The dismantling takes two forms namely integration and an acceleration of quota growth. In other words, various textile categories are becoming subject to the rules of the World Trade Organisation. Categories are selected from each of the following groups namely tops and yarns, fabrics, made up textile products and clothing. The remaining 49% will be integrated on 1st January 2005.

Regarding the acceleration of quota growth, any bilateral agreement in force on 31st December 1994 will remain in force until the end of the year 2004 except for those products, which have been integrated in the interim. For quotas that remain, growth rates are increased according to a formula. Thus a quota, which grew under the Multifibre Arrangement by 10% in 1994, will grow by 18.4% per annum between 2002 and 2004. By 2005 quantitative limits will cease to exist.

While the level of the tariffs is not mentioned in the text, it was agreed that they would be reduced and bound. For the European Community, tariffs on textiles and clothing are the lowest in the world. Other provisions included a special safeguard clause against import surges for the duration of the

phase out period and an importing country can establish a quota if it can prove that imports of a product have risen so rapidly as to cause or threaten damage to the domestic industry, and regulations on dealing with supplying countries found guilty of transshipment, re-routing, false declaration of origin and the use of false documents. Furthermore, in theory, steps are being taken to ensure fair trade and to achieve improved market access while special exemptions exist for new entrants, small suppliers and least developed countries.

Some issues remain, which affect the trade in textiles and clothing and which are likely to increase in significance once the Agreement on Textiles and Clothing expires on 1st January 2005. They are:

Whereas in a period of managed trade, many developing countries have a fixed share of the market in the developed economies, this will change and there will be increased competition between developing countries to sell into developed economies to obtain hard currency. The winners and losers of such an increase in competition are not yet known.

According to Mr. Mathias Knappe, Senior Marketing Development Officer at International Trade Centre, "A shift in market fundamentals will considerably affect exports from many developing countries and economies in transition, where national incomes depend to a large extent on exporting garments..... In fact, developing countries risk losing heavily from the final liberalization of trade in textiles and clothing if they are not well prepared for the expected business and market changes. Instead of winning new export markets as they had expected following the Uruguay Round of negotiations, many countries risk losing existing markets.

These losses in turn could undermine commitment to the Doha Development Agenda. Countries and firms must prepare for a new reality in the textiles

and clothing trade.” However, it is expected that China and India will increase their share of the available market after 2005. Exports from Pakistan are also likely to increase. For other countries, the future is uncertain. Within countries there will also be a differentiation, export oriented industries gaining at the expense of other types of production, which lacks proper infrastructure.

Mr. Mathias Knappe says, while nobody can give precise picture of the global textiles and clothing market after 2004, there are some indicators of the potential winners and losers of the quota phase-out. He gives three important indicators:

1. Use of quotas: Countries which are fully using their quotas in the years preceding 2005 will probably increase their exports after that date. Countries which are not able to full their present quotas are unlikely to benefit from a market opening. Quota performance monitoring, therefore, is essential.

2. Exploiting liberalized categories: The changes happening from the liberalization of product categories, which followed the third stage of the ATC in January, 2002, give a clue to possible developments. At that time, the United States integrated seven categories into WTO, there by abolishing quotas and causing trade flows to change tremendously. In all liberalized quota categories, China greatly increased its exports to the US market, in some cases up to several hundred percent. While other countries increased exports in some categories, only China did so across the board, mainly to the detriment of Central American and Caribbean countries, and of some other small producers which lost market share.

3. Critical export mass: developing countries that are not under quota constraints will face intense competition which they have not experienced before. For developing countries that do not currently have meaningful export

quantities, it will become even more difficult to enter or to remain in world markets, and critical mass will become an important issue. Major international buyers are unlikely to source from a country where only a few companies serve the world market.

For developing countries, which have a vibrant export sector, in view of the trading developments that are taking place in their main export markets, the consequences of these new trading realities are yet to be addressed. A point of concern is the general applicability of tariffs in any event, particularly in comparison with fluctuations in exchange rates, as for example has recently taken place in Asia; five years of negotiations to achieve a reduction in tariffs can be nullified by the exchange movements of one day.

Both developed and some developing economies may resort increasingly to defensive trade strategies, notably anti-dumping measures, which unfortunately takes time to implement, and which are likely to be significantly modified in the medium term.

The issue of anti-competitive trade practices is complex but in general terms encompasses, dumping, subsidisation and other trade barriers which are derogations from the free trade practices enshrined within the World Trade Organisation.

Anti-dumping and countervailing duties represent virtually the only methods that can legitimately be applied to counteract unfair trade practices, as the trade barriers regulation has been rarely applied.

One issues is the level of assistance provided by the governments to the sectors in terms of subsidies and other forms of State support. For example, extensive state support has been available for synthetic fibre manufacturers in the European Community for over two decades.

Table : Textile Exports, Rs million

ITEMS	YEAR					
	90/91	91/92	92/93	93/94	94/95	95/96
Fabrics	11,965	17,067	20,492	23,863	32,093	36,729
Millmade	6,167	7,149	8,033	9,510	12,009	14,492
Powelooms	3,233	6,474	7,710	9,310	14,046	16,610
Handlooms	1,227	1,872	2,730	2,817	3,180	2,553
Knitted	1,338	1,572	2,019	2,227	2,858	3,075
Made-ups	7,455	11,362	16,463	22,933	29,141	33,539
Millmade	2,554	3,130	3,249	3,306	3,654	4,891
Powerloom	2,055	3,212	5,542	9,403	13,633	16,175
Handloom	2,846	5,020	7,606	10,161	11,794	12,360
Knitted			66	63	60	113
Yarn	5,114	9,824	11,619	15,999	26,085	33,583
Sewing Thread	49	67	47	54	31	49
Garments	30,175	43,815	64,756	85,820	97,782	103,543
Woven	20,892	29,958	41,299	55,507	67,549	66,968
Knitted	9,283	13,858	23,457	30,314	30,233	36,575
Total Cotton Textiles	54,758	82,134	113,377	148,670	185,132	207,444
Rayon/ Synthetics excl garments	6,361	11,061	14,363	18,468	24,847	31,227
Fabrics	3,464	6,155	8,081	11,775	14,992	17,265
Spun Yarn	649	1,772	2,320	2,557	4,441	7,289
Filament Yarn	117	599	900	450	1,202	1,888
Made-ups	1,253	1,727	2,023	2,648	2,900	3,503
Fibers	540	357	554	395	638	534
Other Items	339	451	485	644	675	748
Woolen excl garments	923	1,667	3,125	4,484	3,600	4,389
Non-cotton garments	16,431	19,009	23,652	28,427	41,591	44,521
Silk (fabrics, made-ups, garments)	4,359	6,756	7,200	7,891	9,375	8,461
Total Textile	82,833	120,626	161,716	207,940	264,543	296,040
Total Merchandise Exports	331,662	447,882	498,330	711,339	843,310	1,085,208

Source: Textile exports from ICMF, Handbook of statistics on Cotton Textile Industry, New Delhi, various issues. Total merchandise exports from World Bank, India Sustaining Rapid Economic Growth (1997 CEM)

Imperfect competition is a major concern. If some producers behave more efficiently than others, expand their markets, undersell rivals and indeed overcome economic problems, other producers exit the market. Therefore, the cause of oligopoly and ultimately monopoly, which is considered as being a bad thing, as it is against the public interest, is competition which is considered as being a good thing, as it is efficient.

Environmental Issues

A number of issues are being raised on the

application of biotechnology in general and transgenic or genetically engineered crops in particular by multinational companies notably Astra-Zeneca, Aventis, Dow, DuPont, Monsanto and Novartis. These are concerned with ethics, with the relative benefits and risks to the consumer and the environment and with trade concerns notably the application of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) which was an integral part of the Uruguay Round of Multilateral Trade Negotiations.

For natural fibres for example in the case of the United States over two thirds of plantings used genetically engineered seeds. However, it should

be remembered that cotton is not solely used for the growing of fibre. Cottonseed oil is used in human consumption while the cottonseed itself is utilised as roughage in animal feed.

The public commitment of companies to ensure health and safety is not a sufficient condition.

Eco labeling

Exports from developing countries are increasingly confronted with the need to adopt eco-labelling requirements. However, there is concern that access to developed markets will be significantly reduced due to this. In February 1999 the European Commission authorities published a Commission Decision on a revised Community eco-label award scheme, which establishes the ecological and fitness for use criteria for the award of the Community eco-label to textile products.

Textile products are defined as textile clothing (consisting at least 90% by weight of textile fibres), interior textiles (i.e. textile products for indoor use consisting at least 90% by weight of textile fibres and excluding floor coverings) and yarn and fabric for use in textile clothing or interior textiles. The ecological criteria encompass every stage of textile production including raw material, colours, dyes and the processes. Energy and water use will also be considered in awarding a Community eco-label. Furthermore, account should be taken of recognised environmental management schemes such as EMAS or ISO 14001.

Already there is discussion taking place in Europe towards revising and extending this to exterior textiles, household textiles and technical textiles. It is likely that the existing criteria will be further modified and that new criteria, for example, biocides would be added.

The eco-audit scheme of the European Community is part of the overall action programme for the environment and more particularly with respect to

improving access to information. Increasingly, enterprises are facing additional responsibilities with respect to the need to access, prevent and control the environmental impact of their activities.

Social Issues

Social concerns are influenced in some measure by the effects of social interaction. Different values result in differing customs, attitudes, policies, etc. Changing attitudes, patterns and behaviour and laws all effect how factors of producti on interrelate. Global communication affects how persons react to the images that are presented. Child labour is one issue which is increasingly getting highlighted.

The Singapore Ministerial Declaration delegated the responsibility of the social issues to the International Labour Organisation. The Declaration also rejected the use of labour standards for protectionist purposes and agreed that the comparative advantage of countries, particularly low cost developing countries must in no way be put into question.

However, Western non-governmental organizations, the media and labour unions are putting pressure on international buyers to source 'ethically correct' textiles and clothing. The large international buyers apply such ethical sourcing standards to all the developing country manufacturers and even subcontractors, as they cannot afford negative publicity. While there can be no condoning of full time employment of children there are nevertheless elements in attempting to introduce such policies which are disturbing.

The first is that some consider that attempts to internationalize social laws are more to do with hidden imperialism of which the stance taken by some countries in Seattle in December 1999 was a good example and which alienated many developing countries. A second issue relates to the

globalisation of Western values to other cultures. The third is that there appears to be little understanding of the economic consequences of such action, which in many instances would push families further into poverty.

New Challenges

Mr. Mathias Knappe, further says, as the textiles and clothing sector is fully integrated into the WTO/GATT, those countries and companies which adapt first to the challenges of the new market will be better placed to secure their market position. Pure economic performance and well-managed competitive advantages will count more than ever before. The possible changes are:

1. Growing markets: New markets might emerge, while the existing markets are likely to grow.
2. Vanishing markets: Many smaller countries will lose guaranteed markets. Studies by the US department of Commerce in its report to the Congressional Textile Caucus, showed that major buyers will reduce the number of countries they source from by half in 2005-06 and by another third by 2010.
3. Declining prices: In an oversupplied, liberalized market, declining prices are likely to continue, as is happening in US textile and clothing import prices since 1996. this is similar to what is happening in Europe, Japan and Many other markets. This is likely to bring about deterioration in the terms of trade for the developing countries.
4. Antidumping and countervailing duties: there is likely to be a rise in antidumping and countervailing duty cases, which will pose a real threat to successful developing country exporters. While this is the fear of the developing countries, in US and Europe industry is calling for antidumping and countervailing duties.

5. More customs checks: It is expected that until 2005 'products verification visits' will increase. In addition, increased security requirements for imports after 11th September, 2001 may have negative effect on exports from developing countries.

Finally, in 2005, it is expected that large producers notably China P.R. and India together with those countries that have developed new products and new markets will dominate commodity type cotton apparel products. The industries in developed economies will increasingly move towards specialty products in the apparel sector and concentrate attention on technical and industrial textiles.

Bloc-level trade arrangements will be the more significant with control being in the United States, the European Community and China and Japan. Further rationalisation will occur globally. Unfair trade practices are likely to continue as also the subsidies. Environmental issues will be crucial. While there is no doubt that the sector will be faced with many new challenges, the issue remains how best to react to them.

The Conference on the Future of Textiles and Clothing after 2005, Brussels, 5-6 May 2003

High level officials from almost all important countries in textile and clothing attended the conference, including Mr. Superchai Panitchpakdi, Director General of WTO, Mr. Rubens Ricupero, Secretary General, UNCTAD, Mr. Pascal Lamy, Commissioner for Trade, European Union, trade ministers from Bangladesh, Brazil, Cambodia, Indonesia, Mauritius, Mexico, Pakistan, Sri Lanka, Tunisia, Turkey, Vanuatu, and Vietnam, high level bureaucrats from the United States, India and Japan as well as a range of CEO from major European retailers and textiles and garment manufacturing companies, trade unions and academics.

It was very clear that from 2005, trade in textiles and clothing will change completely. It was a general consensus that larger countries with an integrated textile industry, including cotton-growing facilities, will likely to be the main beneficiaries of the removal of quotas.

All participants regarded China as the major beneficiary, followed by India and Pakistan, who are also expected to gain considerably. With regard to almost all other countries, the future is rather uncertain. Mr. R. Ricupero pointed out that it would be very challenging for many developing countries to translate these opportunities into actual trade, simply as the countries face supply side constraints. The competitiveness of many countries needs to be improved.

Key sourcing decisions are influenced by the final customer and his/her behaviour. Final customer requirements plus the requirements of the retailer will determine the final requirements for the T&C exporting company in a developing country.

However, major sourcing factors for all companies remain to be price, quality, services provided by the buyer, quick response and the general country risk, including logistical and legal requirements. Quality is seen as a process that takes time to be built.

Regional Workshop on Globalisation, Economic Liberalisation and Indian Informal Sector with focus on Handloom sector, 27-29 July, 2003, Hyderabad

This workshop was organized by Centre for Handloom Information and Policy Advocacy (a unit of Centre for Resource Education, Hyderabad) in association with Consumer Unity and Trust Society (CUTS), Calcutta, and Oxfam GB (India), as part of a national effort to develop a Advocacy document for the informal sector in India. Participants included handloom weavers, traders,

academics, officials, NGOs, trade unions and consumers.

The Workshop was unanimous that handloom sector is in crisis primarily because of discriminating public policies, arising out of global changes. Participants' emphasized on the need to strengthen the sector given the employment potential and market demand for handloom products. They recommended various steps to be taken by the government to make this sector more competitive, primarily relating to raw material access, marketing mechanisms and welfare measures.

World Bank says, "Dismantling the quota regime represents both an opportunity (for developing countries to expand exports) and a threat (because quotas will no longer guarantee markets and even the domestic market will be open to competition)....Growth in Indian exports may require a shift to an assembly - line, factory - type system.....making labour policy more flexible."

Going by the recent initiatives of the Central government, it seems these recommendations are being seriously followed. These recommendations tend to 'Westernise' the sector, and thus bringing in the pitfalls and problems arising out of such 'alien' system of production. The success of South Asian countries, even in industrial products, shows that assembly-line production can be avoided. There are many ways and methods in India, which can help us to meet the demands of the market in 2005 scenario. Current public policies would destroy the Indian textile sector, wipe out our advantages and enable dumping of Western textiles.

Write to us your suggestions, thoughts and contributions.